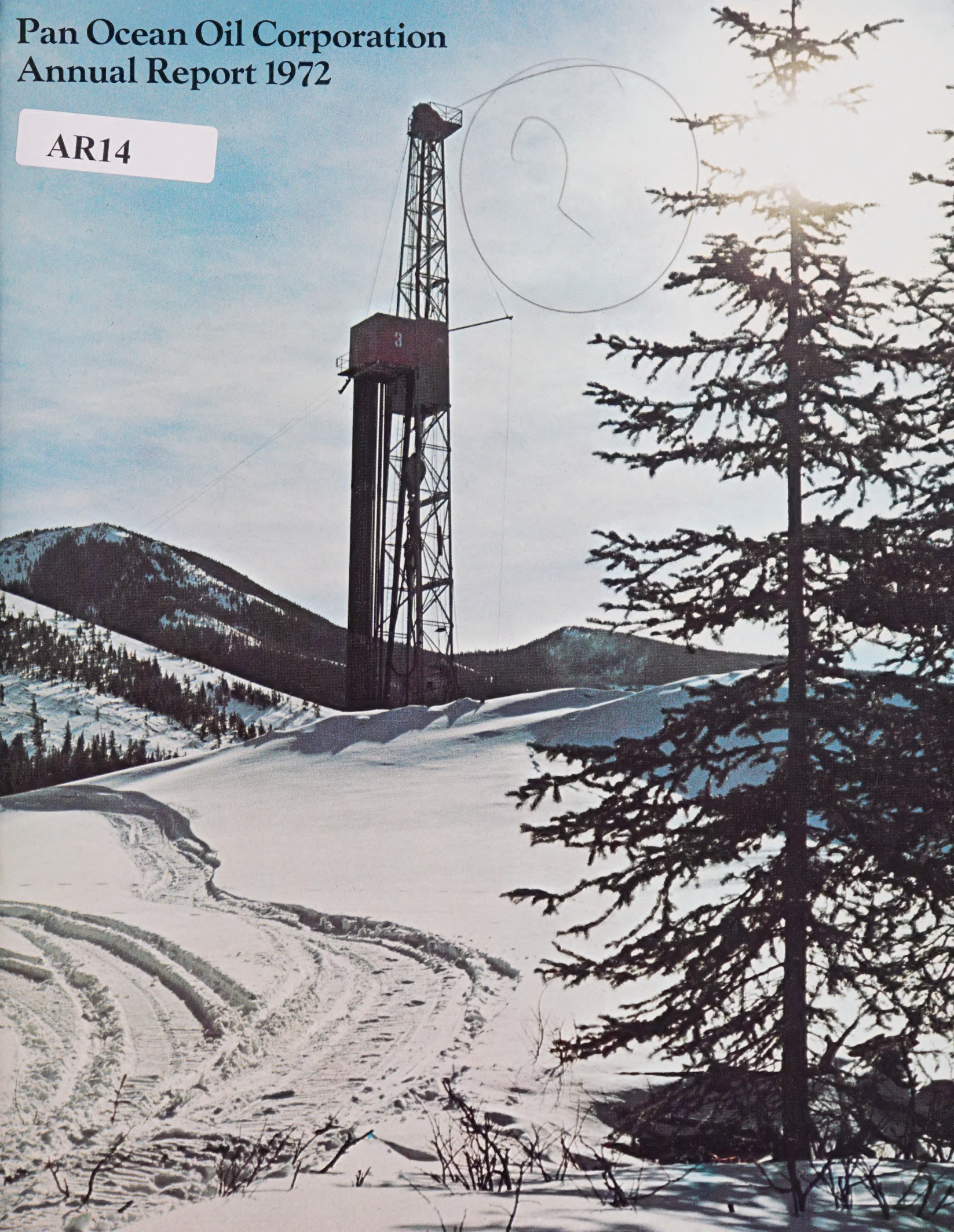




Pan Ocean Oil Corporation Annual Report 1972

AR14



Board of Directors

Peter A. Banker, Vice President

Phillip J. DeZwirek
Private Investor

*John M. Emery
Partner, Breed, Abbott & Morgan, New York

*Yasuhiro Goh
Director, Bridgestone Liquefied Petroleum
Gas Company, Tokyo

Don V. Ingram
Vice President, Paine, Webber, Jackson & Curtis, Inc., Dallas

Adam A. W. Kryczka, Vice President

*Louis Marx, Jr., Chairman of the Executive Committee

Neil A. McConnell
Partner, McConnell & Co., New York

F. William Popp, Executive Vice President

*Stanley R. Rawn, Jr., Chairman of the Board and President

Samuel P. Reed
President and Director, Engelhard Hanovia, Inc.,
New York

Victor E. Trudel, Executive Vice President

*Members of the Executive Committee

Officers

Stanley R. Rawn, Jr., Chairman of the Board, President
and Chief Executive Officer

F. William Popp, Executive Vice President

Victor E. Trudel, Executive Vice President

Peter A. Banker, Vice President

George P. Giard, Jr., Vice President

Adam A. W. Kryczka, Vice President

William H. Price, Vice President-Production

Alaster G. Swanson, Vice President-Mining

Gerald P. Taber, Secretary

Thomas P. Sullivan, Treasurer, Controller

Corporate Headquarters

Pan Ocean Building
645 Madison Avenue
New York, New York 10022

Transfer Agent and Registrar

Bankers Trust Company
New York, New York

Legal Counsel

Breed, Abbott & Morgan
New York, New York

Independent Accountants

Price Waterhouse & Co.
New York, New York



*Pan Ocean exploratory well drilling in the
Alberta foothills.*

Dear Shareholder:

We welcome this opportunity to provide an accounting for you of corporate progress during the past year, to describe your Company's current position, and to indicate the direction of Pan Ocean's activities over the coming months. The year 1972, Pan Ocean's third full year as a public company, was marked by the discovery of substantial new reserves, the development of a stronger financial position, and encouraging progress on current exploration programs—as well as initiation of new exploration activities.

The Company reported income before extraordinary items of \$1,025,494 in 1972, compared to a restated loss before extraordinary items of \$1,473, 125 in 1971. An extraordinary item of \$279,930 increased net income to \$1,305,424 in 1972. Approximately \$14 million of new equity capital was raised in June of last year.

Pan Ocean and its partners discovered a major gas-condensate field on Block 25/4 in the Norwegian sector of the North Sea in 1972. Plans are underway to proceed with the development of the new field, known as "Heimdal."

In July of 1972 Pan Ocean entered into a four-year joint exploration program with Gulf Oil Canada Limited. The primary objective will be exploration for deep gas reserves. The program will cover a minimum of \$21.5 million of exploration expenditures involving over 2.6 million gross acres in western Canada.



Encouraging results were obtained during 1972 from exploratory work carried out on a number of the Company's international holdings, and a broad range of exploratory drilling will be underway in 1973. In addition to further drilling in the North Sea, exploratory drilling is planned for onshore Nigeria, the Malacca Straits offshore from Indonesia, the Arabian Gulf offshore from Abu Dhabi, and the Amazon Basin of Peru. Uranium exploration activities are underway in the western part of the United States, as well as in Canada and Australia. Mineral activities in the United States are being conducted through a 73% owned subsidiary, Frontier Resources, Inc., a Denver-based mineral exploration company which Pan Ocean acquired during 1972.

Progress was made during the past year on programs directed toward development of properties representing proven energy

resources. These properties are expected to provide substantial future income to the Company. Construction of facilities to mine and mill uranium ore was commenced at Wollaston Lake in north-eastern Saskatchewan. Extensive evaluation work was conducted on a coking coal deposit at Flathead in British Columbia. Construction of LPG recovery facilities began at the Strachan gas processing plant in Alberta. Development of a fluorspar deposit in western Kentucky is in progress.

Pan Ocean's primary objective is exploration for major new energy reserves. Your Company has developed, and is continuing to develop, good exposure through its broad holdings in high potential areas—while at the same time being assured of long-term income from future sales of present reserves not yet fully developed. We look forward to a very active 1973, and looking back, wish to take this opportunity to thank our complete staff for its performance, and our shareholders for their support.

Respectfully submitted on behalf of the Board of Directors,

A handwritten signature in dark ink, reading "Stanley R. Rawn, Jr." with a stylized flourish at the end.

Stanley R. Rawn, Jr.
*Chairman of the Board, President,
and Chief Executive Officer*

April 9, 1973.

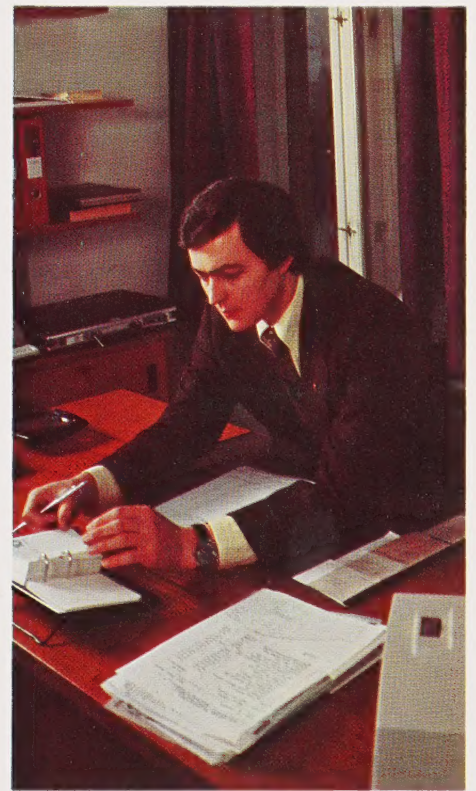
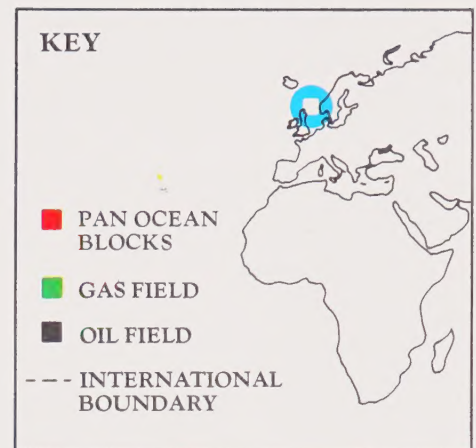
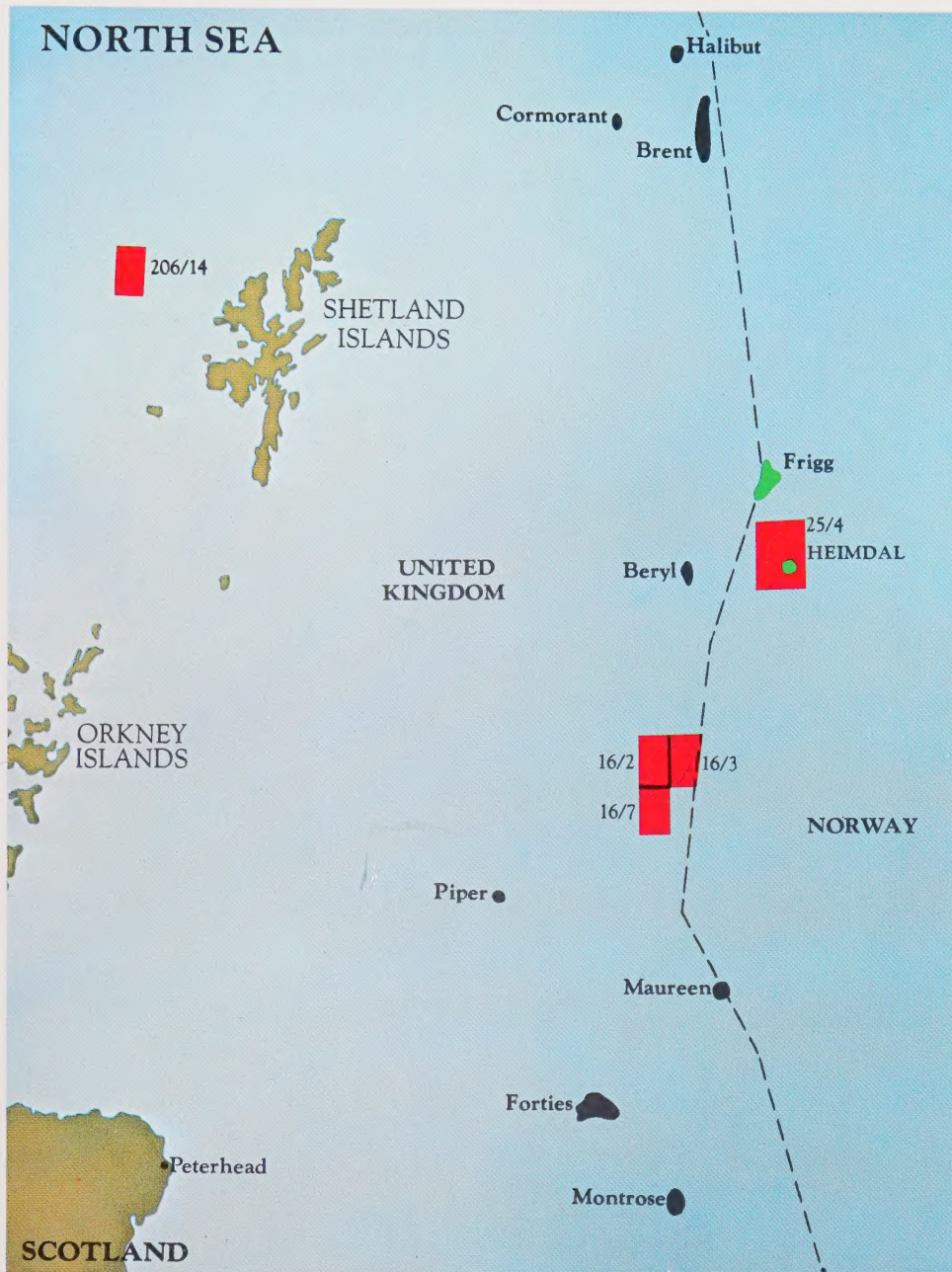
EXPLORATION

OIL AND GAS

During 1972 a major gas-condensate discovery was made by the Pan Ocean-Petronord Group on Block 25/4 in the Norwegian North Sea. The discovery, known as the Heimdal field, was one of eight significant discoveries made in the northern sector of the North Sea in 1972. The combination of sizeable discoveries and a favorable success ratio, located in proximity to major energy markets, has made the North Sea today's most important international exploration area. As discussed later in this Report, the relationship of the Heimdal field to Petronord's Frigg gas field is expected to result in the development and marketing of Heimdal gas at an earlier date than might otherwise be the case. Toward the end of last year, an additional seismic survey was conducted over Block 25/4 to delineate the productive structure more accurately and to gain further information on the rest of the block. A second test well on Block 25/4 is scheduled to be drilled in the third quarter of 1973. Preparatory

(Right, above) Semi-submersible rig Neptune 7 drilling Heimdal discovery well on Pan Ocean's Block 25/4 in Norwegian North Sea. (Right) Dr. Hans H. Lohmann, Geophysicist, London.





A. J. Hovland, Manager, Oslo.

work is continuing relative to applications for new blocks expected to be offered by the Norwegian Government later this year.

Detailed seismic work has been completed in the U. K. North Sea on our Blocks 16/2, 16/3 and 16/7. Initially two separate exploratory tests will be drilled on Block 16/7. If a rig is available, the Company

plans to drill the first of these tests in the summer or fall of 1973. Negotiations are in progress for a semi-submersible drilling rig to drill one or more wells on Block 16/7 in 1974. Pan Ocean's interest in the three U. K. blocks is 40%. In Blocks 206/14 east of the Shetland Islands and 103/22 in the Celtic Sea, where Aquitaine Oil

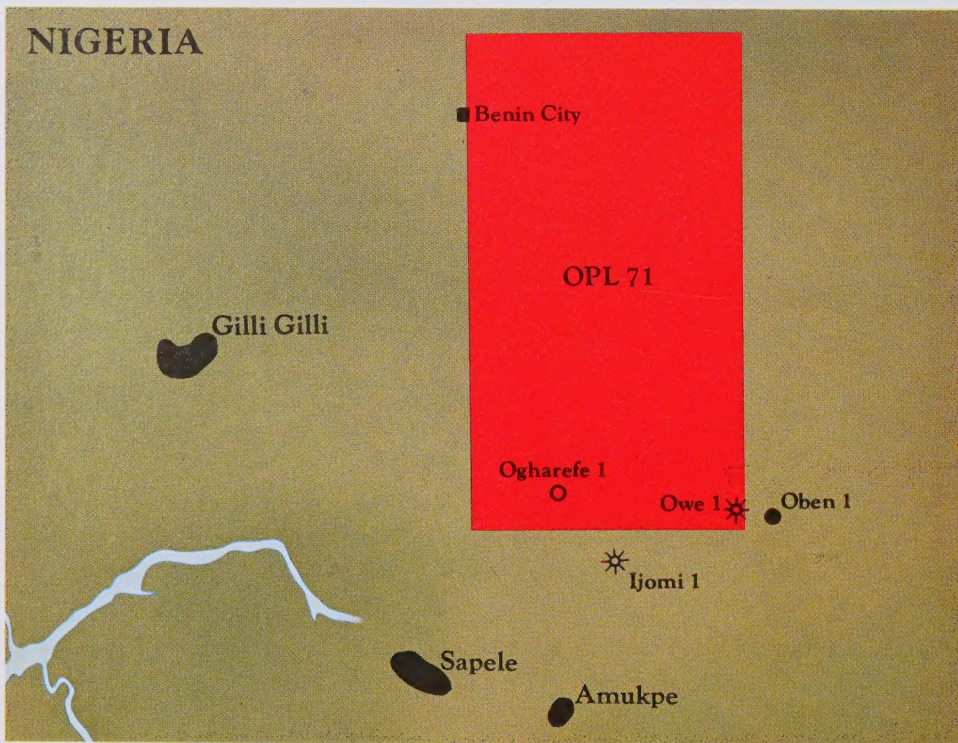
(U. K.) Ltd. is the operator, seismic surveys have been conducted and data is being processed.

In the latest round of awards in the Dutch North Sea, Pan Ocean was awarded an interest in Block P4. Seismic work on the block is commencing shortly. Additional seismic work is proposed for 1973 on Blocks Q11 and Q14.

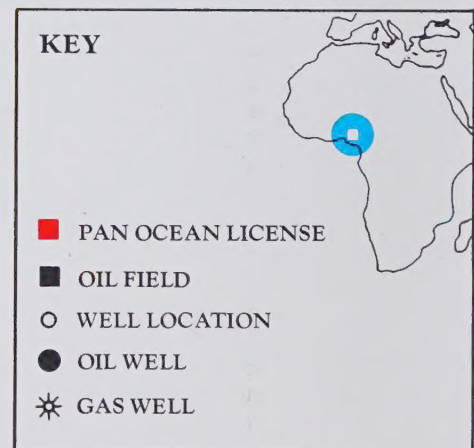
During 1972 Pan Ocean drilled an exploratory well on license area OPL 71 onshore *Nigeria*. The

well encountered several zones of gas and condensate. There is no market for gas at this time in

Nigeria and the well was shut in. An extensive seismic program was carried out in the last half of 1972



Rigging up to drill test well Ogharefe 1 on OPL 71 in Nigeria.



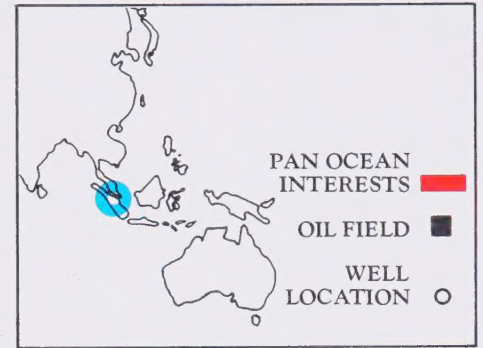
across the southern portion of OPL 71. A second exploratory well on OPL 71 was commenced in March 1973. Pan Ocean holds 100% of the working interest in the area.

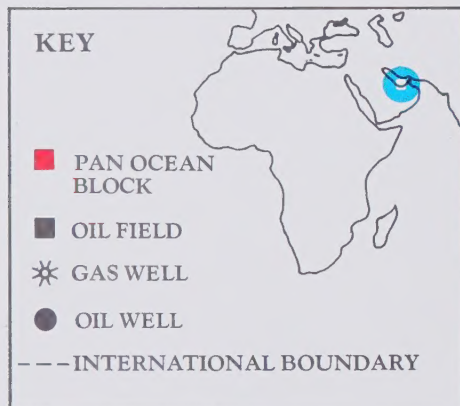
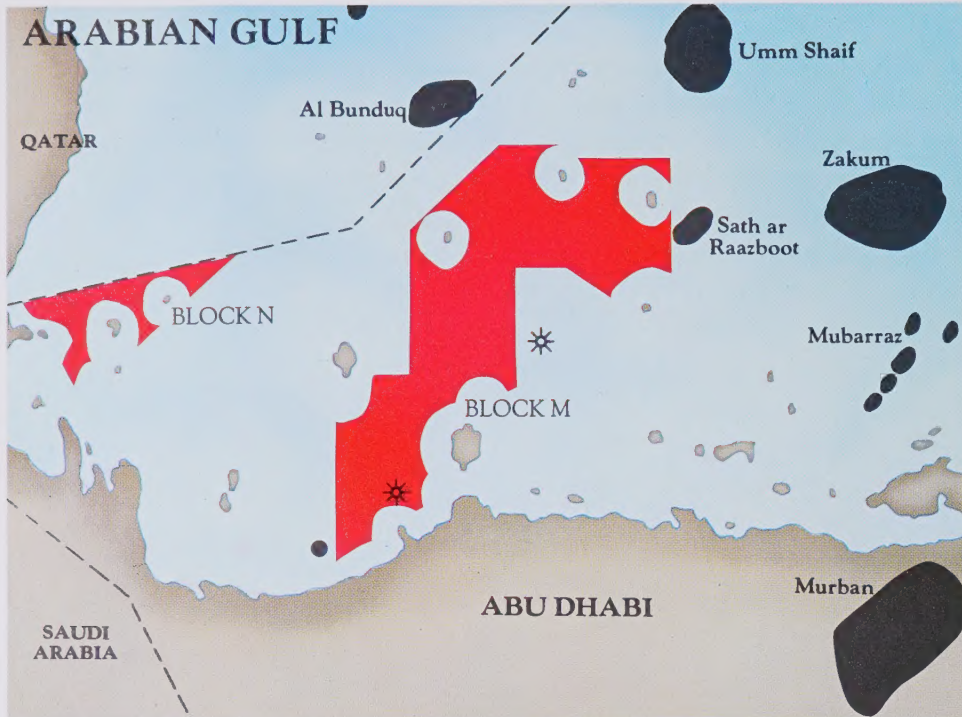
In *Indonesia* Pan Ocean holds a 35% interest in a Production Sharing Contract covering approximately 10 million acres in the Malacca Straits. Atlantic Richfield, as operator, has been conducting a continuous seismic program since mid-1972. The program has included both marine seismic and detailed onshore seismic across

certain large islands off the Sumatra coast. Exploratory features of unusual size have been delineated and a minimum three-well exploratory drilling program is scheduled to commence in June of 1973.

Offshore seismic programs were also conducted during 1972 in *Tunisia* and on Pan Ocean's 4 million acre concession area in the Andaman Sea offshore *Thailand*. The Company also participated in a seismic survey offshore *Sicily*, where Aquitaine is the operator. An agreement was concluded in 1972 whereby Elf-Erap acquired

an interest from Pan Ocean and its partners in the *Maldiv Islands*. Elf-Erap recently began a broad seismic program on the 15 million acre area located in the Indian Ocean.





Pan Ocean and its partners plan to drill an exploratory well later this year in *Abu Dhabi*. Located offshore in the Arabian Gulf, the 778,000 acre concession is owned 31.5% by Pan Ocean. A test well drilled there in 1971 was abandoned as a non-commercial gas well. Commencing in 1972, a total of 1,482 miles of reflection seismic shooting was conducted, providing a close grid coverage over the concession area. Amerada Hess is the operator.



(Above and right) Seismic operations on Pan Ocean's Block 3 in Amazon Basin of Peru.

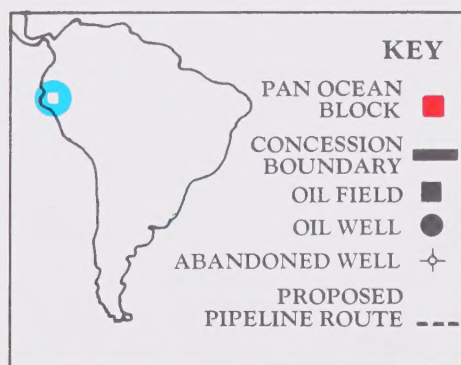
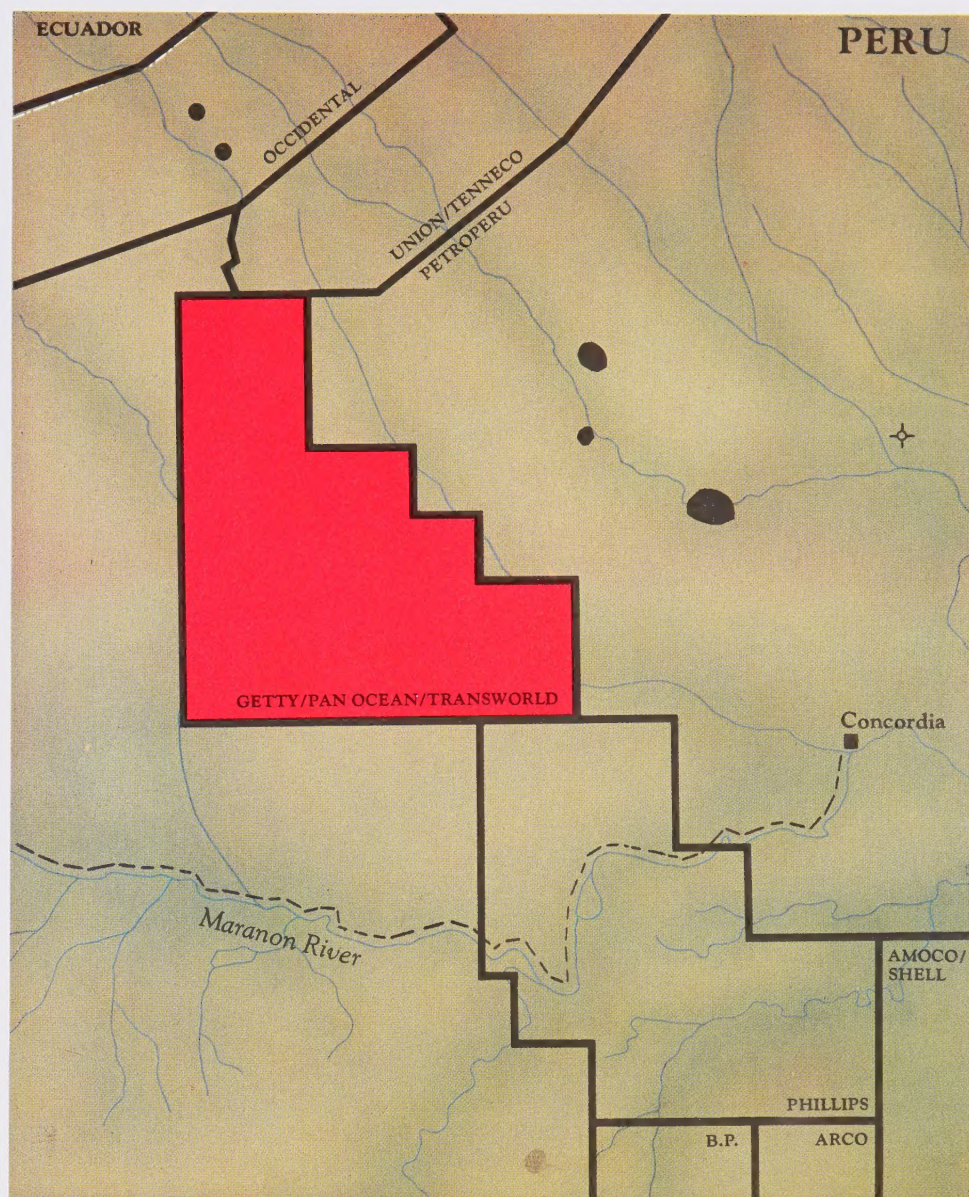
Pan Ocean holds a 25% interest in a Production Sharing Contract with Petroleos del Peru (Petroperu) on Block 3, a 2.5 million acre block in the Amazon Basin of Peru. Five out of the six exploratory wells



drilled to date in the Peruvian portion of the Basin have resulted in oil discoveries, all within 40 miles of Block 3. Getty Oil, as operator, has been carrying out a contin-

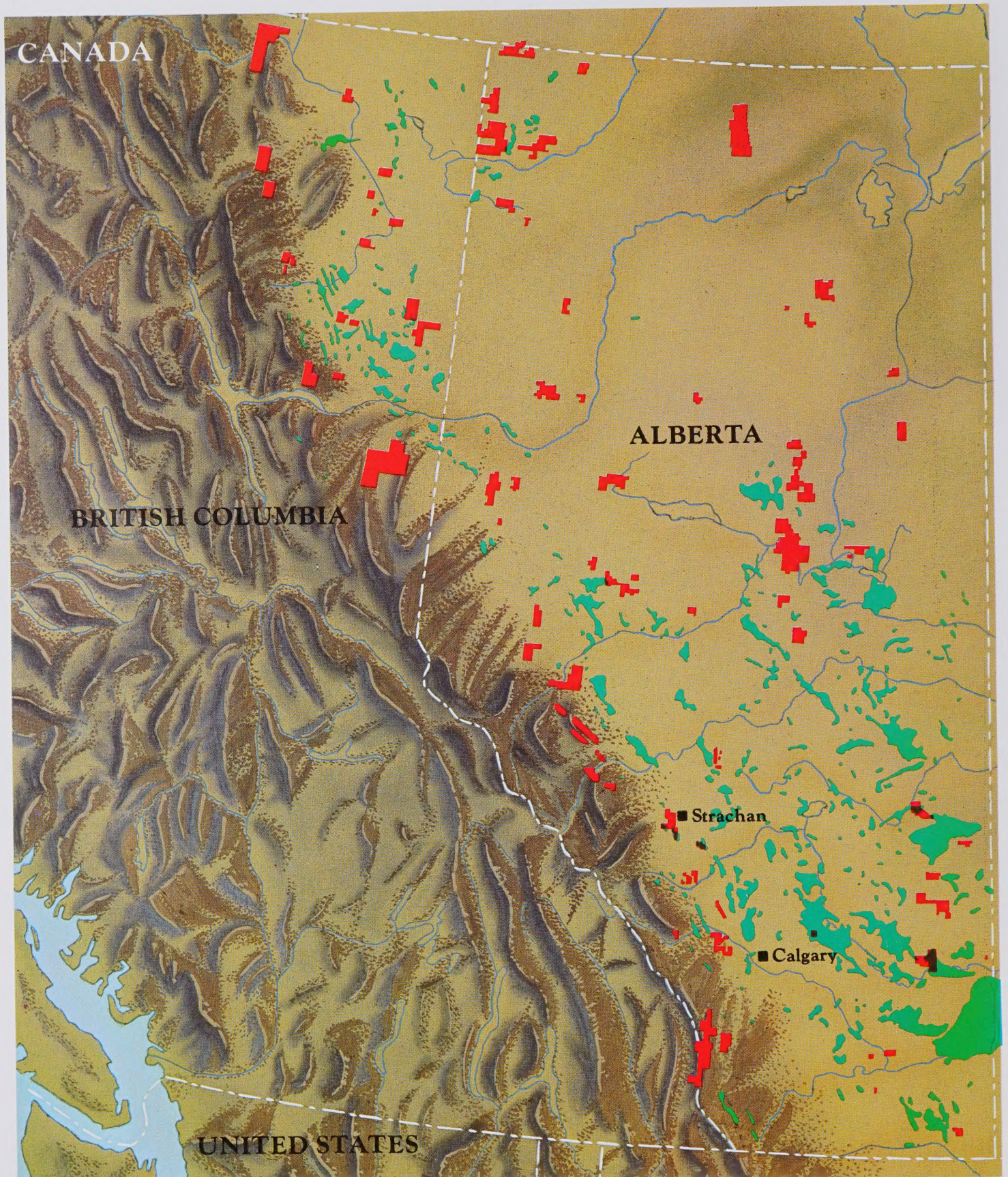


uous seismic program on Block 3 during most of 1972, utilizing two seismic crews. This program will continue through 1973. Results of the seismic program have been



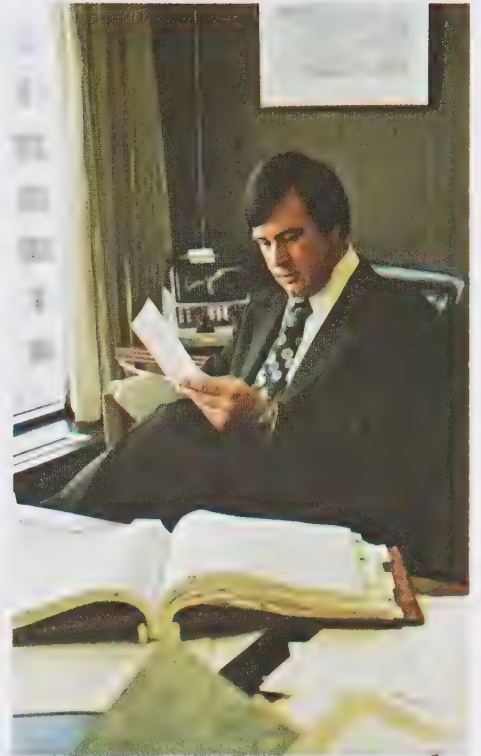
encouraging. Contractual arrangements are now being made to secure a helicopter drilling rig to

commence drilling operations on Block 3 in December 1973. Exploratory drilling is expected to continue through 1974 and into 1975. The Government recently announced plans to commence construction next year of a \$340 million pipeline over the Andes to the Pacific Coast, scheduled for completion by January 1976. Intensive exploration of the Basin by a number of international companies is expected during the next two to three years.





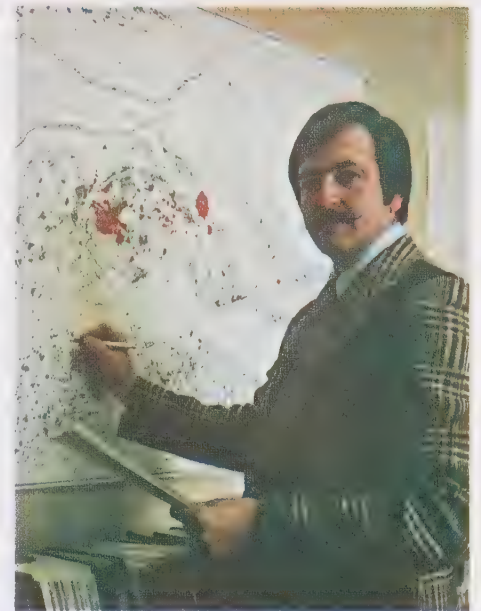
(Above) James F. Cowie, Land Manager, Calgary. (Right, above) Norman F. Talbot, Treasurer, Calgary. (Right, below) John E. Squarek, Production Manager, Calgary.



In July 1972 Pan Ocean and Gulf Oil Canada Limited entered into a joint exploration program in Canada. The agreement calls for exploration expenditures of \$21.5 million over a four-year period. The program will be carried out on 2.6 million gross acres of Gulf lands in Alberta and British Columbia, plus new lands that may be jointly acquired by Gulf and Pan Ocean during the four-year period. The Gulf lands include all lands in Alberta and British Columbia which Gulf had planned to explore during the next four years. The

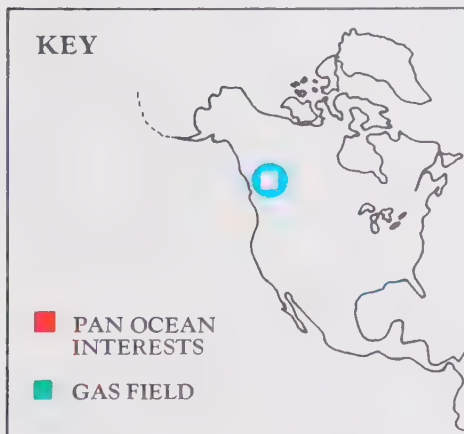
primary objective of the exploration will be deep gas reserves along the foothills area from the U. S. border to the Northwest Territories.

Pan Ocean will be responsible for \$17 million and Gulf \$4.5 million of the total exploration expenditures. Pan Ocean Exploration Partnership was created to provide financing for its portion of the exploration costs through private placement to a relatively few limited partners. Pan Ocean will provide development funds required as the result of a discovery, and after recovery of all costs, Pan Ocean and the limited partners will share equally in revenues accruing to the Partnership interest. The Pan Ocean Partnership has 25% of Gulf's interest in all joint venture lands, regardless of where the exploratory drilling is conducted. It is expected that more than 50



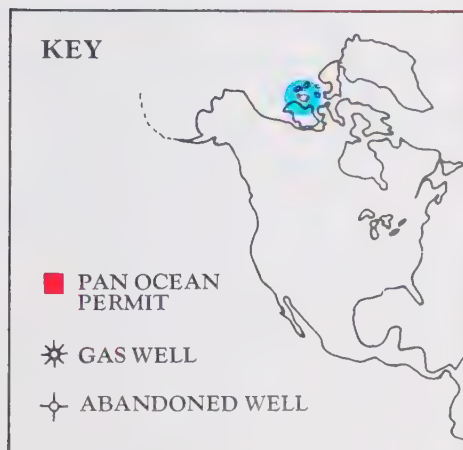
exploratory wells will be drilled in the next four years. Presently there are six deep tests drilling in the program.

Under terms of a seismic option with Panarctic Oils Ltd., Panarctic acquired the right to earn a 50% interest in two blocks held by Pan





ARCTIC ISLANDS



Ocean and its partners offshore from Melville Island in the Arctic. Seismic results indicate an offshore structure which extends partially onshore to Melville Island. In November 1972, Panarctic drilled an exploratory well, the Hecla F-62, located onshore 1.5 miles from the Pan Ocean acreage. The well was successful and was reported by Panarctic to be the fourth substantial gas discovery made in the Arctic Islands. Since then, an appraisal

(Left) Exploratory well being drilled in Alberta foothills as part of joint exploration program with Gulf Oil Canada Limited.



Richard W. Foster, Chief Geologist, Mining Division, Calgary.

well, located 3 miles to the south and directionally drilled offshore, has confirmed the discovery. Pan Ocean's interest in the offshore acreage after assignment of Panarctic's interest will be 12.5%. (As a point of interest, these particular two blocks of 60,749 acres represent the very first acreage Pan Ocean acquired after its incorporation in 1968.)

MINERALS

Uranium

In anticipation of an expected increase in demand for uranium, the Company laid the ground work last year for expansion of its uranium exploration activities to the United States. In 1972, Pan Ocean acquired a controlling interest in Frontier Resources, Inc., a public company with head offices in Denver, Colo., and a field office in Albuquerque, N.M. Frontier Resources holds prospective uranium lands in New Mexico, Utah and Montana. An extensive exploration program is being formulated for 1973. The management and



Uranium mill under construction at Rabbit Lake, Saskatchewan.

staff of Frontier Resources will materially enhance our capabilities in this field.

In Canada, continuing uranium exploration programs were conducted by Gulf Minerals Canada Limited as operators on the 241,925 acres of joint interest lands surrounding the presently developing Rabbit Lake ore body. Results of these programs have been recently encouraging and considerable additional exploration and drilling will be undertaken in 1973. In the



Baker Lake region of the Northwest Territories, further exploration was conducted in 1972 and additional programs are planned.

In Australia, Pan Ocean is acquiring interests in approximately

(Above) Drilling on Company coal property, British Columbia.

150,000 gross acres located in the state of Western Australia. Uranium exploration in this area will commence during 1973.

Coal

In addition to the extensive evaluation program being conducted on the Flathead property, which is discussed later, the Company negotiated a farmout to Pine Pass Development Ltd. on Pan Ocean's 62,365 acres of coal holdings in the Pine Pass area of northeastern British Columbia. All costs of exploration on this property will be borne by Pine Pass Development Ltd. up to the point of development of these reserves. Pan Ocean will retain a 40% operating interest at that time. Field work was conducted in 1972 and drilling commenced early in 1973.

Fluorspar and Other Minerals

Through Frontier Resources, exploration has been carried out on 17,700 acres of fluorspar leases in the vicinity of the new fluorspar mine now being developed at Salem, Kentucky and results have been encouraging. Additional work is planned for 1973 on these new zones as well as other untested structures.

Work programs were conducted on several of the Company's 25 various holdings of copper, nickel, molybdenum and lead/zinc interests. The Iron Mask copper area of British Columbia, in particular, continues to show promise. Work on one of the Company's holdings in that area is being funded by Craigmont Mines Ltd. which has the right to acquire a 60% working interest in this property.

(Right) Development of fluorspar deposit, Salem, Kentucky.



EVALUATION, DEVELOPMENT AND PRODUCTION

The *Heimdal* discovery well on Block 25/4 in the Norwegian North Sea is located 22 miles south of Petronord's Frigg gas field. Under an agreement entered into early last year between the Pan Ocean Group and the Petronord Group, Petronord acquired an interest in Block 25/4. Elf-Erap, the French State-owned oil company, is operator for the Petronord Group both at Frigg and at Heimdal, and will coordinate development of both gas fields. Production testing at Heimdal through a choke from a relatively small interval of the reservoir measured a flow rate of 33.8 million cubic feet of gas per day, plus 545 barrels per day of condensate, confirming good reservoir conditions. An economic study is in progress involving the construction of a production platform and subsequent development of the Heimdal field. The Norwegian government has an option to purchase a 40% working interest. After exercise of this option, Pan Ocean would hold a 19.375% interest and be the largest interest holder in the block after the Norwegian government. A strong and growing market for North Sea gas, combined with the proximity and joint management of the two gas fields, is presently expected to result in developing and marketing Heimdal reserves within about three and a half years.

At the *Strachan* gas plant in Alberta, construction began last year on an LPG recovery facility. This facility, expected to be com-



pleted in September 1973, will recover 4,000 barrels per day of mixed propane and butane. As part of this \$5 million expansion, the plant inlet capacity has been increased from 250 to 275 million cubic feet per day. Pan Ocean's interest at Strachan is 20%.

The government of the Province of Alberta, in recognition of disproportionate low costs for Alberta natural gas in relation to other gas prices and other energy costs, has called for increased field prices, including renegotiation by the pipeline companies of existing gas contracts. As a result, the sale price for Strachan gas, currently at 16 cents per thousand cubic feet, could be renegotiated upward well in advance of January 1980, when the

present contract calls for renegotiation. Strachan gas is currently Pan Ocean's largest single source of revenue.

Construction of a mine and mill at the *Rabbit Lake Uranium ore body* in the Wollaston Lake region of northern Saskatchewan began in 1972. This operation is being undertaken by Gulf Minerals Canada Limited, as operator, and Uranerz Canada Ltd., a partnership of a German mining and a German electrical utility company. Pan Ocean holds a net profits interest of 8.75% before payout and 17.5% thereafter in the mine and mill complex and surrounding potential lands. A major portion of the initial phase of construction, involving the erection of supporting facili-

(Above) Strachan gas plant, Alberta.
(Below) Bulk sampling of coal seam through adit at Flathead.



ties, has been completed and foundations for the mill complex have been poured. Construction and installation will continue during 1973 at an accelerated rate. Development is expected to cost about \$50 million. Plans call for initial

production of uranium oxide concentrate early in 1975.

A broad evaluation program was carried out by Rio Tinto Canadian Exploration Limited in 1972 on Pan Ocean's leases on the *Flathead coal project* in southeastern British Columbia. Four adits were constructed, and extensive bulk sampling and core drilling carried out to determine reserves and quality characteristics of the coking coal in the project area. Additional adits and drilling, and further feasibility and market studies will continue in 1973. Rio Tinto may acquire a 60% interest in the property by completion of certain work requirements.

The shaft for the new *Salem, Ky. fluorspar mine* was commenced in 1972 and completed early in 1973. Mill construction is now well underway and initial production of acid-grade fluorspar is expected in



Mine shaft head frame.

October 1973. This project is being operated by Cerro Corporation which holds a major interest in the

project, with Frontier Resources holding an 11.25% participating interest.

MANAGEMENT

During 1972 we were pleased to announce the election of two new Directors to our Board: Mr. F. William Popp, Executive Vice President-International Operations in London, and Mr. Don V. Ingram of Dallas, Vice President of Paine, Webber, Jackson & Curtis, Inc. In Canada, Mr. William H. Price was named President of Pan Ocean Oil Ltd. and Mr. Adam A. W. Kryczka, Chairman. Mr. Victor E. Trudel, Executive Vice President of the parent and former Chairman of Pan Ocean Oil Ltd. in Canada, has transferred to the London office. Mr. George P. Giard, Jr. has joined the Company as Vice President in New York.

FINANCIAL

In 1972 Pan Ocean reported income before extraordinary items of \$1,025,494, or \$.10 per share, compared to a restated loss before extraordinary items of \$1,473,125 in 1971. An extraordinary item in 1972 of \$279,930 increased net income to \$1,305,424, or \$.12 per share. Gross revenues for the year totaled \$8,065,592. Net income adjusted for non-cash charges for depletion, depreciation and amortization and for deferred income taxes totaled \$3,007,167.

The Company in 1972 adopted retroactively the full cost method of accounting for its oil and gas properties. This method provides that petroleum finding costs of both

successful and unsuccessful operations be capitalized and subsequently amortized as reserves from successful operations are produced. In prior years, the finding costs of unsuccessful properties were written off at the time those properties were abandoned. The full cost method of accounting has found widespread acceptance among companies in the industry and results in a more meaningful matching of costs and related revenues for a company primarily involved in oil and gas exploration.

Sales and other operating revenues were \$7,059,141 in 1972, an increase of 19% over 1971. Operating costs were lowered 16% to \$1,318,454. This resulted in an overall improvement in contribution to net income from operations of 32% for 1972 over the preceding year. General and administrative expenses were reduced by 22% from last year, in spite of the greater level of exploration activity.

In June of 1972 the Company raised \$13,870,409 in new equity capital through the sale of 1,390,000 shares of common stock. Of this, \$9,790,409 was raised through a public offering jointly made in the U. S. and Canada, and \$4,080,000 in a private offering made to two Directors of the Company.

At the end of 1972 the Company had current assets of \$16,886,353, against current liabilities of \$3,370,920. Long-term debt consists of \$5,837,867 of bank debt and a \$10,000,000 convertible subordinated debenture, convertible at \$12.50 a share. The Company is in a strong financial position relative to its present exploration plans.



OIL AND GAS EXPLORATORY INTERESTS

LOCATION	PAN OCEAN INTEREST	ACREAGE	
		GROSS	NET
1 ABU DHABI	31.5%	778,381	245,190
2 CANADA			
Alberta, Saskatchewan			
and British Columbia	Various 10%-100%	695,347	322,177
Arctic Islands	Various .6%-25%	7,171,954	532,199
Baffin Island East	22.5%	1,158,884	260,749
East Coast Offshore	Various 10.2%-50%	2,684,620	641,307
Hudson's Bay	Various 16.67%-45%	2,285,110	494,527
Yukon	Various 25%-50%	96,404	24,101
3 EAST CHINA SEA*	70%	10,000,000	7,000,000
4 GHANA	Various 0.4%-2.1%	1,885,440	34,446
5 INDONESIA	35.1%	9,827,167	3,449,335

*Lease application—priority filing.

LOCATION	PAN OCEAN INTEREST
6 ITALY	
Onshore	Various
Adriatic Sea	Various
7 MALDIVE ISLANDS	
(Indian Ocean)	
8 NIGERIA	
9 NORTH SEA	
Dutch Sector	
Block Q-11	
Block Q-14	



1973 DRILLING



MINERAL EXPLORATION



TOTAL OIL AND GAS ACREAGE: Gross – 67,109,571; Net – 22,479,646

<u>ACREAGE</u>			<u>LOCATION</u>	<u>PAN OCEAN INTEREST</u>	<u>ACREAGE</u>	
<u>PAN OCEAN INTEREST</u>	<u>GROSS</u>	<u>NET</u>			<u>GROSS</u>	<u>NET</u>
NORTH SEA						
34%-68%	75,836	50,309	Dutch Sector	9.89%	40,021	3,958
37.5%-75%	261,837	117,639	Block P-4			
875%	15,100,586	1,189,125	Norwegian Sector	36.9%	129,480	47,778
			Block 25/4			
100%	248,320	248,320	United Kingdom Sector	40%	162,820	65,128
			Blocks 16/2, 16/3 & 16/7			
			Blocks 103/22 & 206/14			
4.7%	40,021	9,901	10 PERU	25%	2,510,536	627,634
3.8%	5,931	1,708	11 SOUTH AFRICA	40.9%	6,890,240	2,817,420
LOCATIONS			12 THAILAND	100%	3,952,544	3,952,544
			13 TUNISIA	33.3%	185,819	61,939
ORATION ACTIVITIES			14 UNITED STATES	Various 12.5%-100%	814,273	273,215

Consolidated Balance Sheets

	December 31,	
	1972	1971 (Restated Note 3)
ASSETS		
Current assets:		
Cash.....	\$ 1,397,842	\$ 4,207,329
Time deposits.....	13,518,959	6,887,129
Marketable securities, at cost (approximate market value—1972—\$274,900; 1971—\$1,610,000).....	271,794	1,507,281
Accounts receivable.....	1,423,372	1,611,023
Prepaid expenses and other assets.....	190,812	75,198
Income tax refund.....	83,574	1,481,462
Total current assets.....	16,886,353	15,769,422
Properties and equipment, at cost (Notes 2, 3, 4 and 8):		
Developed oil and gas properties.....	19,687,414	18,737,507
Undeveloped leaseholds, mineral rights and mining claims.....	29,441,914	19,850,852
	49,129,328	38,588,359
Less—Accumulated depletion, depreciation and amortization.....	6,669,500	5,386,976
	42,459,828	33,201,383
Other assets:		
Furniture and fixtures, net of accumulated depreciation 1972—\$216,916; 1971—\$168,655.....	389,090	434,732
Investments, at cost.....	399,037	92,249
Loan to officer (Note 7).....	53,333	106,667
Other.....	592,140	651,223
	1,433,600	1,284,871
Total assets.....	\$60,779,781	\$50,255,676
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 1,731,212	\$ 1,772,542
Accrued liabilities.....	57,108	551,215
Long-term debt due within one year (Note 6).....	1,582,600	6,085,863
Total current liabilities.....	3,370,920	8,409,620
Long-term debt (Note 6).....	15,837,867	15,925,710
Deferred income taxes (Note 5).....	140,000	—
Minority interest in consolidated subsidiaries (Note 1).....	295,328	90,000
Shareholders' equity (Notes 1, 3, 6 and 7):		
Common stock \$.01 par value—authorized 30,000,000 shares; issued and outstanding 11,247,524 shares in 1972 and 9,831,136 shares in 1971.....	112,475	98,311
Preferred stock \$1.00 par value—authorized 5,000,000 shares; issued—none.....	—	—
Capital in excess of par value.....	59,431,707	45,445,975
Deficit.....	(18,408,516)	(19,713,940)
Total shareholders' equity.....	41,135,666	25,830,346
Commitments and contingencies (Note 10).....	—	—
Total liabilities and shareholders' equity.....	\$60,779,781	\$50,255,676

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income (Loss) and Deficit

	For the year ended December 31,	
	1972	1971
		(Restated Note 3)
Revenues:		
Sales and other operating revenue	\$ 7,059,141	\$ 5,914,952
Interest income.	493,936	733,181
Gain on sales of interest in undeveloped properties.	506,253	—
Other income.	6,262	120,935
	<u>8,065,592</u>	<u>6,769,068</u>
Costs and expenses:		
Production and lease operating expenses.	1,318,454	1,572,473
Depletion, depreciation and amortization.	1,561,743	1,567,750
Interest expense.	1,330,204	1,656,356
General and administrative expenses.	2,689,697	3,445,614
	<u>6,900,098</u>	<u>8,242,193</u>
Income (loss) before provision for deferred income taxes and extraordinary items.	1,165,494	(1,473,125)
Provision for deferred income taxes (Note 5).	140,000	—
Income (loss) before extraordinary items.	<u>1,025,494</u>	<u>(1,473,125)</u>
Extraordinary items (Note 8):		
Write-down of developed properties.	—	(8,757,273)
Gain on sale of securities.	279,930	1,122,713
Reduction in income taxes payable arising from above items and realization of prior years' tax losses.	—	1,481,462
	<u>279,930</u>	<u>(6,153,098)</u>
Net income (loss).	<u>1,305,424</u>	<u>(7,626,223)</u>
Deficit, beginning of year, as previously reported.	<u>(21,224,155)</u>	<u>(15,174,309)</u>
Adjustment to give effect to 1972 accounting change (Note 3).	1,510,215	3,086,592
Deficit, beginning of year, as restated	<u>(19,713,940)</u>	<u>(12,087,717)</u>
Deficit, end of year	<u>(\$18,408,516)</u>	<u>(\$19,713,940)</u>
Per average share of common stock and common stock equivalents (Note 9):		
Income (loss) before extraordinary items.	\$.10	(\$.14)
Extraordinary items.	.02	(.62)
Net income (loss).	<u>\$.12</u>	<u>(\$.76)</u>

The accompanying notes are an integral part of these statements.

Statements of Common Stock and Capital in Excess of Par Value

	Common stock	Capital in excess of par value
Balance at December 31, 1970	\$ 95,898	\$46,168,365
For the period January 1, 1971 to December, 31, 1971:		
Issuance of 92,715 shares of common stock in connection with the acquisition of Interocean Oil Company, Inc.	927	2,039,073
Exchange of 142,874 shares of common stock for undeveloped leaseholds and mineral rights.	1,429	2,141,681
Issuance of 5,792 shares of common stock in connection with acquisition of Tur-Kan Petrol, Ltd.	57	69,446
Purchase of The Dynamic Group of Companies common stock, cancelled pursuant to merger agreement.	—	(4,972,590)
Balance at December 31, 1971	98,311	45,445,975
For the period January 1, 1972 to December 31, 1972:		
Proceeds from public offering of 990,000 shares of common stock, less \$307,591 expense of issue.	9,900	9,780,509
Proceeds from private placement of 400,000 shares of common stock for cash.	4,000	4,076,000
Proceeds from sales of 2,658 shares of common stock relating to exercise of stock options.	27	24,610
Issuance of additional 2,500 shares of common stock in connection with acquisition of Interocean Oil Company, Inc. (Note 1).	25	54,975
Issuance of 10,039 shares of common stock in connection with undeveloped leasehold interests.	100	120,487
Issuance of 1,000 shares of common stock in connection with services rendered.	10	11,990
Issuance of additional 10,191 shares of common stock in connection with the merger with The Dynamic Group of Companies (Note 1).	102	—
Purchase of additional common stock of The Dynamic Group of Companies, cancelled pursuant to merger agreement (Note 1).	—	(82,839)
Balance at December 31, 1972	<u>\$112,475</u>	<u>\$59,431,707</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

	For the year ended December 31,	
	1972	1971 (Restated Note 3)
Financial resources were provided by:		
Income (loss) before extraordinary items	\$ 1,025,494	(\$ 1,473,125)
Add — Charges not requiring the outlay of funds:		
Depletion, depreciation and amortization	1,561,743	1,567,750
Provision for deferred income taxes	140,000	—
Working capital provided by operations	2,727,237	94,625
Working capital provided by extraordinary items:		
Gain on sale of securities	279,930	1,122,713
Reduction in income taxes payable arising from realization of tax losses	—	1,481,462
Proceeds on sale of interests in undeveloped properties, net.	—	2,177,411
Issuances of common stock:		
For undeveloped properties	120,587	2,143,110
Acquisition of certain subsidiaries	55,000	2,109,503
Proceeds from sales of common stock	13,895,046	—
Decrease in investments	—	1,112,695
Total source of funds	17,077,800	10,241,519
Financial resources were used for:		
Additions to properties and equipment:		
Developed oil and gas properties	949,907	2,790,071
Undeveloped oil, gas and mineral properties	9,591,062	5,568,246
Furniture and fixtures	2,619	237,140
	10,543,588	8,595,457
Increase in investments	306,788	—
Purchase of minority interest in The Dynamic Group of Companies (Note 1)	82,839	4,972,590
Reduction of long-term debt	87,843	5,713,092
Other items, net	(98,889)	124,684
Total application of funds	10,922,169	19,405,823
Increase (decrease) in working capital	6,155,631	(9,164,304)
Working capital at beginning of year	7,359,802	16,524,106
Working capital at end of year	\$ 13,515,433	\$ 7,359,802
Changes in components of working capital:		
Increase (decrease):		
Current assets—		
Cash	(\$ 2,809,487)	(\$ 16,924)
Time deposits	6,631,830	(7,672,692)
Marketable securities	(1,235,487)	145,840
Accounts receivable	(187,651)	484,954
Prepaid expenses and other assets	115,614	(22,443)
Income tax refund	(1,397,888)	1,481,462
	1,116,931	(5,599,803)
Current liabilities—		
Accounts payable	(41,330)	342,376
Accrued liabilities	(494,107)	—
Notes and other payables to banks	—	(202,725)
Income taxes payable	—	(1,609,813)
Long-term debt due within one year	(4,503,263)	5,034,663
	(5,038,700)	3,564,501
Increase (decrease) in working capital	\$ 6,155,631	(\$ 9,164,304)

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Note 1—Organization:

Pan Ocean Oil Corporation was incorporated on September 4, 1968. On February 5, 1971 Pan Ocean and United Bata Resources Limited (N.P.L.) (Bata) effected a merger whereby a total of 3,080,487 shares of Pan Ocean common stock were issued for the common shares of Bata. On December 22, 1971 Pan Ocean effected a merger with eight Canadian companies known as The Dynamic Group of Companies. Pursuant to the combination terms Pan Ocean issued 1,977,343 shares of its common stock in exchange for more than 90% of the outstanding shares of The Dynamic Group of Companies. These mergers were treated as poolings of interest for accounting purposes and the accompanying consolidated financial statements have been adjusted retroactively to include the operations of Bata and Dynamic.

In a series of transactions over the past several years Pan Ocean also acquired certain developed natural gas properties and several companies having assets consisting primarily of proven or producing oil and gas properties, interests in undeveloped properties, marketable securities and minority holdings of common stock in certain oil and gas companies. These acquisitions were accounted for as purchases and recorded at the fair value of assets acquired. The statements of income and loss include the operations of such companies from their respective dates of acquisition.

These acquisitions are summarized as follows:

Acquisition date	Company/property acquired	Pan Ocean shares issued
1969/1970	Developed natural gas properties in Crockett County, Texas.	454,366
February 9, 1970	Vaneil Properties, Inc.	326,531
June 30, 1970	Pocantico Oil & Gas Corp.	140,000
July 2, 1970	Ocean Platinum Company.	13,412
February 26, 1971	Interocean Oil Company, Inc. (including 2,500 shares issued in 1972).	95,215
September 30, 1971	Tur-Kan Petrol Ltd.	5,792

In 1972 the company completed a public offering of 990,000 of its common shares resulting in net proceeds of \$9,790,409. Simultaneously, the company had a private placement to a Director and an officer of 400,000 shares with net proceeds of \$4,080,000.

During the latter part of 1972, the company acquired a 72% interest in Frontier Resources, Inc. for \$1,358,000. Frontier's assets consist principally of interests in undeveloped mineral properties in the United States. The acquisition was accounted for as a purchase and the net loss of Frontier since acquisition of approximately \$9,500 is included in the statement of income and loss.

Pan Ocean, including the companies combined through poolings of interest, is engaged primarily in the acquisition and exploration of interests in undeveloped oil, gas and mineral acreage in Canada, the United States and various other countries throughout the world. Income results principally from the production of discovered reserves.

Note 2—Accounting Policies:

Oil and gas properties:

The company had followed the total cost method of accounting for the cost of its oil and gas properties. Under this method all acquisition, exploration and development costs were initially capitalized. Depletion, depreciation and amortization of the capitalized costs of producing properties were provided for generally on a unit-of-production basis as oil and gas reserves were produced. Costs associated with unsuccessful properties were written off at the time such properties were abandoned or surrendered.

In 1972 the company adopted retroactively the full cost method of accounting for the costs of its oil and gas properties outside of the United States because management is of the opinion that all costs, whether for successful or unsuccessful properties, are a part of the overall costs of discovering reserves. Management believes capitalization of all oil and gas exploration costs, including costs associated with unsuccessful properties and amortization of such costs, on a pro rata basis as the discovered oil and gas reserves are produced, results in a more meaningful matching of costs and related revenues.

Under the company's full cost method, costs are accumulated separately in three cost centers, Canada, United States and Other Foreign Areas. All developed and undeveloped property costs accumulated for the Canadian cost center are being amortized using the unit-of-production method based upon estimated proven developed reserves. For the United States, costs of developed properties are being depleted on a unit-of-production basis. Exploration activities in the United States are relatively minor and management currently has no intention of pursuing domestic exploration programs. Accordingly, undeveloped property costs are being deferred until such time as reserves are discovered or the property is sold or abandoned. Gains or losses on disposition of undeveloped properties in the United States are recognized and included in the results of operations. Costs incurred in Other Foreign Areas are being deferred pending the results of exploration programs. These costs will be amortized as discovered reserves for the Other Foreign Area cost center are developed and produced. Except for the United States, no gain or loss is ordinarily recognized on the disposal of any properties.

The company has developed reserves in Canada and the United States and undeveloped reserves in Other Foreign Areas. The net capitalized costs which include developed and undeveloped properties for Canada and Other Foreign Areas will be limited to the value of the recoverable oil and gas reserves applicable to each of the cost centers. For the United States net capitalized costs for developed properties will be limited to the value of recoverable reserves in the United States.

Mineral properties:

In 1972 the company also adopted the full cost method for all of its mineral properties exclusive of coal. The company's mineral properties are presently in the exploration or development stage and all costs and expenses related thereto, including costs associated with unsuccessful properties, have been capitalized. No depletion, depreciation and amortization will be

provided on the properties until production commences. The net capitalized costs of mineral properties will be limited to the value of recoverable mineral reserves.

Consolidation:

The consolidated financial statements include the accounts of the company and its majority-owned subsidiaries. All inter-company accounts have been eliminated.

Foreign exchange:

Current assets and liabilities of foreign subsidiaries have been translated to U. S. dollars at rates of exchange in effect at the balance sheet dates and the remaining accounts have been translated at appropriate historical exchange rates. Statements of loss and deficit have been translated at exchange rates effective during the periods covered.

Note 3—Accounting Change:

As more fully explained in Note 2 to the consolidated financial statements, the company adopted, in 1972, the full cost method of accounting for the costs of its oil, gas and mineral properties whereas in prior years the total cost method had been used. Accordingly, pursuant to Opinion No. 20 promulgated by the Accounting Principles Board of the American Institute of Certified Public Accountants, the financial statements of prior years have been restated to apply the new method retroactively. For income tax purposes, the company's previous policies have been continued.

The following presents the adjustments made to give effect to the change, in 1972, to the full cost method of accounting for the costs of oil, gas and mineral properties:

	Increase (decrease)	
	1972	1971
Revenues.....	—	(\$2,177,411)
Costs and expenses.....	(\$1,800,000)	(601,034)
Net effect on income (loss) before extraordinary items.....	\$1,800,000	(\$1,576,377)
Net effect on income (loss) per average share of common stock before extraordinary items.....	<u>\$.17</u>	<u>(\$.15)</u>

The 1972 accounting change adjustments to revenue and expenses relate principally to the elimination of gains and losses on the disposition or abandonment of undeveloped properties.

Note 4—Properties and Equipment:

Costs of properties (as restated to the full cost basis of accounting—Note 2) for Canada, the United States and Other Foreign Areas are summarized as follows:

	December 31,	
	1972	1971
Developed oil and gas properties and related equipment:		
Canada:		
Producing lands and leases.....	\$ 9,484,631	\$ 8,851,147
Processing plants and related equipment.....	4,719,168	4,571,545
Lease and well equipment.....	1,428,597	1,420,574
	<u>15,632,396</u>	<u>14,843,266</u>
United States:		
Producing lands and leases.....	2,154,701	1,996,124
Processing plants and related equipment.....	647,855	570,403
Lease and well equipment.....	1,252,462	1,327,714
	<u>4,055,018</u>	<u>3,894,241</u>
	<u>\$19,687,414</u>	<u>\$18,737,507</u>

	December 31,	
	1972	1971
Undeveloped properties:		
Oil and gas:		
Canada.....	\$ 8,057,460	\$ 6,427,852
United States.....	774,288	650,609
Other Foreign Areas.....	16,907,176	10,470,415
	<u>25,738,924</u>	<u>17,548,876</u>
Mineral properties.....	<u>3,702,990</u>	<u>2,301,976</u>
	<u>\$29,441,914</u>	<u>\$19,850,852</u>

The value of producing proven reserves in Canada exceeds the carrying value of the company's investment in developed and undeveloped oil and gas properties in Canada. In the United States the value of producing proven reserves exceeds the company's cost of developed properties in the United States. Undeveloped reserves outside of Canada and the United States have a value which exceeds the company's total investment in undeveloped oil and gas properties in Other Foreign Areas.

The value of the company's mineral reserves exceeds the investment in undeveloped mineral properties.

Note 5—Income Taxes:

At December 31, 1972, the company has net operating loss carryovers of approximately \$5,760,000 available to reduce future years taxable income. Possible United States tax benefits relating to \$5,500,000 of 1971 losses reported for financial statement purposes have not been recorded as at December 31, 1972. These losses have not been taken as yet for tax purposes and accordingly the company has not claimed the United States tax loss as a carry-forward on its returns to date.

For 1972 and 1971 Pan Ocean Oil Corporation and its United States subsidiaries have had losses before taxes. While the company's Canadian subsidiaries had income in both years for financial statement purposes, for Canadian tax purposes these subsidiaries have expenditures relating to drilling, exploration and lease acquisition costs and expenditures relating to capital cost allowances available to be applied against Canadian taxes payable. Accordingly, the company has utilized these expenditure deductions to eliminate current taxes on the reported Canadian income. In 1972 the company provided \$140,000 for deferred income taxes representing deferred taxes applicable to timing differences in excess of the tax benefits of estimated earned future Canadian depletion allowances. No such provision was required in 1971.

At December 31, 1972 the Canadian subsidiaries have expenditures relating to drilling, exploration and lease acquisition costs of \$8,315,000 and capital cost allowances of \$5,285,000 available to be carried forward and applied against future Canadian taxable income.

Note 6—Long-Term Debt:

	December 31,	
	1972	1971
Long-term debt includes the following:		
Convertible Subordinated Note, due July 1, 1985 with interest at 8%.....	\$10,000,000	\$10,000,000
Secured bank loan, at 1/2% over Canadian prime rate.....	5,920,467	6,385,985
Notes payable to banks.....	1,500,000	3,672,031
Other notes payable due January 1, 1972 with interest at 5%.....	—	1,953,557
	<u>17,420,467</u>	<u>22,011,573</u>
Less—Estimated amounts to be paid within one year included in current liabilities.....	<u>1,582,600</u>	<u>6,085,863</u>
	<u>\$15,837,867</u>	<u>\$15,925,710</u>

During 1970 the company received from Pioneer Lands Corporation \$10,000,000 cash for an 8% Convertible Subordinated Note which is convertible into common stock of the company at \$12.50 per share. Pioneer Lands and certain of its affiliated companies and individuals at that time owned approximately 50% of the outstanding common stock of Pan Ocean. If the note were fully converted 800,000 shares would be issued to a present shareholder of the company, who obtained title to the note upon the liquidation of Pioneer Lands Corporation in 1970.

The bank loan of \$5,920,467 is secured by assignments of interests in certain Canadian hydrocarbon reserves. The terms of the loan agreement provided for repayment from production from the assigned reserves. The term of repayment is not to exceed seven years. The company estimated that approximately \$1,082,600 of the loan will be repaid during 1973. Negotiations to refinance the note payable to a bank were completed on February 28, 1973 whereby the company paid \$500,000 of said note and the \$1,000,000 remaining note payable is to remain outstanding through March 1, 1974 with interest currently at 9.85%; accordingly, only \$500,000 of the \$1,500,000 notes payable to banks has been included in current liabilities.

Note 7—Common Stock and Stock Option Plan:

On August 22, 1969, pursuant to a Stock Purchase Agreement dated as of May 31, 1969 between the company and an officer, the company issued 60,000 shares of common stock for \$160,000 in cash. In connection with this transaction, the company on August 25, 1969 loaned such officer \$160,000 with interest at 7% per annum to be repaid in equal installments on June 1, 1971, 1972 and 1973. At December 31, 1972 the principal balance due on the loan is \$53,333.

The company has a qualified stock option plan, ratified by the shareholders on March 5, 1969, to grant options for up to 300,000 shares. At December 31, 1972 options for 290,000 shares have been granted of which options for 180,000 shares have been exercised. On December 11, 1970, shareholders ratified a new plan to grant options to purchase up to 75,000 shares. No options have been granted under this new plan as of December 31, 1972. Both plans provide for the purchase of stock at 100% of its fair market value as of the date the option is granted. Options may not be exercised under either plan unless the grantee remains in the employ of the company for one year after the date of grant. The options expire up to five years from the date of grant.

During 1971 options were granted to directors and employees of the company who are foreign nationals to purchase 124,500 shares at an option price of \$12.00 per share and 10,000 shares at an option price of \$9.50 per share which were the fair market values at the date of grants. During 1972 options to purchase 5,000 shares at \$9.50 per share were cancelled. Also during 1971 nonqualified options for 20,000 shares at \$9.50 per share which was the fair market value at date of grant were issued to nonemployees. During 1972 op-

tions have been granted to directors and employees of the company who are foreign nationals to purchase 43,000 shares at option prices ranging from \$10 to \$16. The options expire up to five years from the date of grant.

The agreement whereby Pan Ocean merged with Dynamic provided that stock options held by Dynamic employees at December 22, 1971 be assumed by Pan Ocean. During 1972 options have been granted under this plan to purchase 16,774 shares at an option price of \$9.44 per share and 647 shares at an option price of \$8.65 per share. Also during 1972 options to purchase 2,658 shares were exercised at option prices ranging from \$8.65 to \$9.44 per share and options to purchase 1,209 shares were cancelled. The options expire up to four years from the date of grant.

Transactions under the company's stock option plans and other options granted are summarized as follows:

	Number of Shares	Option Price
Shares under option at December 31, 1972	326,054	\$8-\$16
Options which became exercisable in 1972	53,478	\$8-\$13
Options exercised in 1972	2,658	\$8-\$9

Of the 326,054 shares, options for 137,861 shares were exercisable at December 31, 1972 and options for 61,605, 61,605, 52,858, and 12,125 shares become exercisable in the years 1973-1976, respectively.

The excess of proceeds over par value of shares issued under stock options is credited to capital in excess of par value.

Note 8—Extraordinary Items:

Nonrecurring write-down of acquired reserves and related facilities:

Included in the acquired properties described in Note 1 were certain natural gas wells and related facilities in Crockett County, Texas (acquired during 1969 and 1970). This acquisition was undertaken to establish a basis for future cash flow and was not considered part of the company's normal operations. The net assets received were recorded at their estimated fair value based on an independent appraisal engineer's projection of future cash flow discounted at 8%. Certain shareholders of the company held significant interests in the Texas properties prior to their acquisition by Pan Ocean.

During 1971 these Texas properties demonstrated increasingly disappointing performances. The wells failed to respond to stimulation and performance continued to decline. Consequently, a new reserve study was commissioned and the report was received in February 1972. The study indicated that the previously estimated reserves required a significant downward adjustment and, accordingly, the properties were written down in value in 1971 by \$8,757,273 to their estimated remaining residual value of approximately \$1,200,000.

Reduction in income taxes payable and realization of tax losses:

In 1970 the company provided income taxes payable of \$1,465,000 in connection with the sales of certain securities.

The extraordinary credit to income in 1971 of \$1,481,462 is substantially the benefit resulting from the utilization of tax losses to reduce this recorded income taxes payable.

Gain on sale of securities:

The 1972 gain on sale of securities of \$279,930 results principally from the sale of securities by a Canadian subsidiary.

Note 9—Earnings Per Share:

Per share amounts are based on the average number of common shares outstanding during each year adjusted for the assumed exercise of all dilutive stock options computed by the application of the "treasury stock" method. Accordingly, the number of shares used in the per share computations for 1972 and 1971 were 10,614,538 and 9,847,405, respectively.

Income (loss) per average share of common stock and common stock equivalents have been restated to give effect to the retroactive adjustment referred to in Note 3.

Fully diluted per share amounts have not been presented since the assumed conversion of the convertible debenture would have an antidilutive effect.

Note 10—Commitments and Contingencies:

Commitments:

The agreements, leases and permits through which the company holds direct and indirect interests in undeveloped leasehold and mineral rights involve various obligations in the form of exploratory work programs and drilling of wells in order to retain the rights to the acreage. At December 31, 1972 the company had commitments of approximately \$6,190,000, \$2,290,000, and \$1,250,000 for the years 1973, 1974 and 1975. The company has a ten-year lease for office space at a yearly current rental net of sublet rentals of approximately \$235,000.

Contingencies:

Pan Ocean is the general partner of a limited partnership that committed, in July 1972, to spend \$17 million in a four-year joint exploration program with another oil company. To the extent that such partnership commitment is not met by limited partners' contributions, the general partner is obligated to make up the deficiency. In 1972, approximately \$5.3 million was contributed by the limited partners, some of whom are Directors and officers of the company, toward program expenditures, and the general partner was not obligated to make up any deficiency. The 1973 budget calls for program expenditures of approximately \$4.4 million.

On April 3, 1972 the Board of Directors of Pan Ocean authorized a guarantee by Pan Ocean of an amount not in excess of \$3,450,000 payable under a letter of credit to be issued to the seller of a company acquired by a subsidiary of Astrodata, Inc. Astrodata is to pay Pan Ocean approximately, but not in excess of, \$500,000 in the form of an Astrodata note for undertaking the guarantee. The final terms of the transaction, which may include a provision for the exchange of such note for Astrodata common stock, are subject to approval by Pan Ocean. A Director of Pan Ocean owns approximately 22% of the outstanding common stock of Astrodata as well as warrants to purchase 100,000 shares of Astrodata common stock.

In 1971 the Canadian Department of National Revenue issued notices of reassessment disallowing certain deductions claimed by The Dynamic Group of Companies in arriving at taxable income for its 1966 and 1967 fiscal years with the result that income taxes and interest totaling \$234,165 have been paid. The company believes that the reassessments are without merit and is contesting them. Accordingly, the income taxes and interest paid have not been shown in the accompanying statement of income and loss and the payments have been included in other assets at December 31, 1972.

The company has no knowledge of any other litigation of tax or other claims pending or considered likely or any other contingent liabilities of any important consequence.

Report of Independent Accountants

To the Shareholders and the
Board of Directors of
Pan Ocean Oil Corporation

We have examined the consolidated balance sheet of Pan Ocean Oil Corporation and its subsidiaries as of December 31, 1972 and the related statement of consolidated income and deficit and the statements of common stock and capital in excess of par value and changes in financial position for the year. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 2 to the consolidated financial statements, Pan Ocean Oil Corporation adopted retroactively in 1972 the full cost method of accounting for the costs of its oil, gas and mineral properties.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Pan Ocean Oil Corporation and its subsidiaries at December 31, 1972, the results of their operations and the changes in financial position for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, with which we concur, referred to in the preceding paragraph.

60 Broad Street
New York, N.Y.
April 9, 1973

Price Waterhouse & G.



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